

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Highland Park		County Wayne	
Audit Date 6/30/05		Opinion Date 10/28/05		Date Accountant Report Submitted to State: 12/15/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

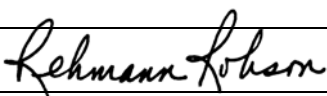
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA				
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI	Zip 48605
Accountant Signature 		12/15/05		

# **CITY OF HIGHLAND PARK, MICHIGAN**

## **FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

# CITY OF HIGHLAND PARK, MICHIGAN

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# **LETTER OF TRANSMITTAL**

To the Honorable Mayor, Members of the  
City Council and Citizens  
City of Highland Park, Michigan

This letter serves as an introduction to the audited financial statements for the 2005 fiscal year. The purpose of this letter is to highlight the significant financial problems noted in the financial statements as well as the accomplishments achieved during the past twelve months.

In June 2001, the State of Michigan (State) appointed an emergency financial manager to take over operations of the City and create a plan to correct the significant operating and structural problems that exist in the City. In April 2005, the State determined the emergency financial manager originally appointed had completed her assessment of the City's issues and appointed me as the new emergency financial manager (EFM) to concentrate primarily on economic development and continue to develop a long-term recovery plan. As the new EFM, I have agreed to a salary of \$1 per year, saving the City \$113,999 annually. The results summarized below are for the fiscal year 2005 operations.

### **General Fund**

The General Fund is the primary operating fund of the City. Its primary operating revenues are property taxes, income taxes and state shared revenue. The operating revenue is used to fund the basic operations of the City, such as police and fire protection services, refuse pickup, code enforcement and general government functions such as election, tax collections and community development.

During the past two fiscal years, the former emergency financial manager made substantial reductions in the citywide number of full time employees. The employee reductions were part of her plan to reduce the substantial operating deficit and improve overall operations. During this period, various contractors were hired to assist with the daily operations of the City and to provide their expertise in improving internal controls and suggest revenue enhancements and expenditure reductions. These contractors included attorneys, accountants, departmental supervisors and others, including a city administrator. In April 2005, I determined that qualified employees could perform most of the contractors' duties.

As such, from April to June 2005, employees were hired to replace the contractors including establishing an in-house legal department, reducing the number of accounting consultants, eliminating the deputy emergency financial manager position, promoting the deputy finance director to finance director (and not appointing a new deputy), and hiring a community development director. The elimination of the contractors will save the City approximately \$600,000 annually.

During fiscal 2005, the City continued to experience significant cash flow shortages. The City's significant annual operating and cash flow deficits make meeting payroll and operating expenditures a challenge during the last quarter of each fiscal year. The cash flow for the quarter ended June 30, 2005 was extremely tight due to the former Interim Finance Director choosing to use cash set aside to fund operating costs in the last quarter to pay contractors, including herself, in full. This action meant the City could only pay payroll, related employee fringe benefits, pension payroll and only emergency operating costs during this period. The cash flow was so severely affected that the City could not pay the monthly contract for police services and had to obtain a tax anticipation loan totaling \$1,250,000 to ensure no interruptions in city services.

The audit report for the year ended June 30, 2005 shows the General Fund had an accumulated fund deficit and annual operating deficit of \$15,614,426 and \$2,787,700, respectively. The operating deficit for the year ended June 30, 2004 totaled \$6,203,121. This included a one-time court-ordered lump sum contribution to the MERS pension plan totaling \$3,473,465, making the net annual operating deficit \$2,729,656. The operating deficit increased from 2004 to 2005 in the amount of \$58,044 despite the significant cost savings from

eliminating the contractors as noted above. The fund deficit at year-end represents approximately 110% of annual operating expenditures and 137% of annual operating revenue.

As the new EFM, I have made eliminating the operating deficit a high priority and have taken several steps toward that goal in my first few months at the City. These steps include assembling a management team of current employees, current contractors and other business professionals to review the finances and all other areas within the City and offer their suggestions on improvements. The management team and I have identified income tax collection and enforcement as a significant revenue opportunity and are in the process of creating a plan to ensure the City collects the appropriate amount of City income taxes. The hiring of a full time community development director will also assist with long-term planning and growth including overseeing the sale and or development of the hundreds of parcels of land currently owned by the City through delinquent tax sales.

I am also focusing on improving employee moral and working conditions including providing air conditioning in the summer, cleaning and repairing work areas as well as improving the grounds of City properties. The City is in the process of moving the court, police and fire operations out of their existing run-down facility to other buildings.

In addition to improving the moral of City employees, I have established a neighborhood clean-up program on the weekends to improve the moral of the citizens. As EFM, I lead groups of volunteers in clean-up efforts to remove trash dumped in alleys and streets, cutting the grass on vacant lots near schools and boarding up unsafe houses. The program will run through the entire summer next year.

While reviewing all contracts, I determined that our contract for waste removal was based on an estimated amount of households that seemed high. Further research revealed that the City was in fact being overcharged and an annual savings of almost \$140,000 will be realized going forward.

### **Major and Local Street Funds**

Prior to the appointment of an emergency financial manager in 2001, the General Fund had previously borrowed money from most of the other funds of the City, some of which were not legally allowable. The General Fund borrowed approximately \$2,000,000 from the street funds and does not have the ability to repay it. The Michigan Department of Transportation (MDOT) withheld annual Act 51 monies equal to the borrowing. During the current year the City and MDOT came to an agreement on the disposition of the withheld Act 51 monies. The agreement calls for the City to **lose** \$1,084,000 (one year's Act 51 revenue) as a **penalty**. This is the first penalty ever issued against a community in Michigan.

The agreement allows the City to use the remaining withheld funds on State-approved street projects administered by Wayne County on the City's behalf. The agreement also requires the City to make monthly repayments from the General Fund to the street funds for the borrowing. The City is continuing to develop a plan to improve the streets that have been neglected by years of mismanagement.

### **Water and Sewer Fund**

General Fund cash flow continues to be crippled by the Water and Sewer Fund's inability to repay the outstanding loan balance of approximately \$3.8 million at June 30, 2005. The loan balance is a result of the City of Detroit garnishing the General Fund's state shared revenue in a prior year (prior to 2001) to pay delinquent sewer bills. The City had a significant rate increase in a prior year, but billing and collection continue to be a problem. The system continues to have zero cash reserves and is strained by infrastructure problems resulting from failure to perform necessary maintenance over the years prior to the financial emergency.

As EFM, I am reviewing all aspects of the Water and Sewer Fund, especially billing and collections, in an effort to strengthen the financial condition of the fund. The items being considered include purchasing meters that can be read remotely; contracting with third parties to read meters, process monthly billings and collect delinquent accounts; and several other items. The City is also exploring opportunities related to the water treatment plant. The plant was built to handle the water needs of a population of more than 50,000 people. The large plant now only serves 15,000 people and has excess capacity that could be used by other communities.



## **Pension Plans**

The most significant issue facing the City in the coming years is the funding of the pension plans. In fiscal year 2004, a judgment levy was ordered on the tax rolls to pay the debt service on bonds issued to partially fund the MERS pension plan. The City is also under a court order to pay the pension benefits to retirees in the Police and Fire Defined Benefit Pension Plan. The Police and Fire plan ran out of reserves during the 2003 fiscal year. The unfunded pension obligation for all plans totals approximately \$39,000,000 at June 30, 2005. The annual required contribution from the General Fund for all plans totals approximately \$4,200,000 (38 % of annual operating revenues). The City has been unable to make the required contributions every year, before and during the appointment of the emergency financial manager. I am working with pension experts from each system, finance experts and officials from the State of Michigan to determine a plan on how to fund, mitigate or eliminate these obligations.

## **Post Employment Healthcare Benefits**

In addition to the pension benefit obligations noted above, the City is also obligated under the union contracts of retirees to provide healthcare benefits. The General Fund pays for most of the monthly benefits for retirees and has no reserves established at June 30, 2005. The General Employees Defined Benefit Plan currently pays these benefits from system reserves. The estimated liability related to post employment healthcare benefits totals \$35,000,000.

## **Conclusion**

Since the appointment of an emergency financial manager in June 2001, the City's annual operating deficit has decreased from approximately \$3.9 million in 2001 to \$2.8 million in 2005. The reductions have come primarily through reductions to full time employees and eliminating city programs and services such as closing the library and recreation centers. The General Fund deficit has increased from \$11.3 million in 2001 to \$15.6 million in 2005 primarily as a result of the annual operating deficits, cost associated with staff reductions (unemployment, sick and vacation bank payoffs, etc.) offset by the issuance of over \$9 million in new debt.

The City has borrowed all the debt allowed by law. Even if the operating budget were to be balanced, no resources would be available to pay down past debts and make required pension payments, capital outlays and improvements necessary for the City to continue as a going concern. The current recovery plan will continue to focus on economic development, increasing property tax and income tax revenues, and cutting costs to ensure the City can continue as a going concern.

*Arthur Blackwell*  
*Emergency Financial Manager*

# **INDEPENDENT AUDITORS' REPORT**



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

October 28, 2005

To the Emergency Financial Manager, Honorable  
Mayor and Members of the City Council  
City of Highland Park, Michigan

We have audited the accompanying financial statements of the **CITY OF HIGHLAND PARK, MICHIGAN**, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City of Highland Park's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further described in Note 1, these financial statements do not purport to present, and do not present, the financial position, results of operations and proprietary fund cash flows of the City of Highland Park, Michigan in accordance with accounting principles generally accepted in the United States of America. These financial statements depart from general accepted accounting principles for a variety of reasons including the failure to: (a) adopt new financial reporting requirements; (b) provide certain required disclosures and supplemental information; (c) properly classify certain transactions; and (d) be derived from complete and accurate accounting records.

In our opinion, because of the matters discussed in the preceding paragraph, the effects of which have not been determined, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Highland Park, Michigan as of June 30, 2005, or the results of its operations or the cash flows of its proprietary fund for the year then ended.

The accompanying financial statements have been prepared assuming that the City of Highland Park, Michigan will continue as a going concern. As discussed in Note 4-G to the financial statements, the City has suffered significant recurring deficits in the general fund and water and sewer enterprise fund, and may have insufficient resources to pay certain pension benefits and other potential obligations, that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 4-G. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005, on our consideration of the City of Highland Park, Michigan's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Highland Park, Michigan. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, as described in the third and fourth paragraphs of this report, does not purport to be presented and is not fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.

# **FINANCIAL STATEMENTS**

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**June 30, 2005**

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise - Water and Sewer</u>	<u>Trust and Agency</u>
<b><u>ASSETS AND OTHER DEBITS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 781,572	\$ 1,582,186	\$ -	\$ 293,529	\$ 1,174,366
Cash and cash equivalents - restricted	371,303	-	-	-	-
Investments	-	-	1,376,918	146,232	4,975,983
Receivables:					
Delinquent property taxes	721,308	-	-	-	-
Income taxes	304,050	-	-	-	-
Accounts, net	-	-	-	3,560,634	-
Due from other governments	408,856	1,268,061	-	-	-
Due from other funds	63,226	5,262	-	4,148	65,308
Advances to other funds	3,808,911	912,546	-	-	283,770
Pension contributions receivable	-	-	-	-	4,492,675
Deposits and prepaid items	272,509	-	-	4,241	65,011
Fixed assets, net	-	-	-	7,280,162	-
<b>Other debits</b>					
Amount available in debt service funds	-	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-
<b><u>TOTAL ASSETS AND OTHER DEBITS</u></b>	<u>\$ 6,731,735</u>	<u>\$ 3,768,055</u>	<u>\$ 1,376,918</u>	<u>\$ 11,288,946</u>	<u>\$ 11,057,113</u>
<b><u>LIABILITIES, EQUITY AND OTHER CREDITS</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 3,946,113	\$ 178,923	\$ -	\$ 3,446,020	\$ 120,640
Accrued liabilities	807,717	-	-	15,638	219,656
Accrued compensated absences	1,450,000	-	-	350,000	-
Due to other governments	-	-	-	-	374,481
Due to TIFA	339,963	-	-	-	-
Due to other funds	70,570	7,609	-	-	59,765
Advances from other funds	1,196,316	-	-	3,808,911	-
Pension contributions payable	4,492,675	-	-	-	-
Deferred revenue	-	1,264,061	-	-	-
Deposits payable	-	-	-	-	452,917
Short-term tax anticipation notes payable	1,250,000	-	-	-	-
Income tax refunds payable	8,792,807	-	-	-	-
Long-term debt	-	-	-	5,384,898	-
Total liabilities	<u>22,346,161</u>	<u>1,450,593</u>	<u>-</u>	<u>13,005,467</u>	<u>1,227,459</u>
<b>Equity and other credits</b>					
Investment in general fixed assets	-	-	-	-	-
Accumulated deficit	-	-	-	(1,716,521)	-
Fund balances (deficits):					
Reserved for employees' retirement	-	-	-	-	9,829,654
Reserved for advances	3,808,911	912,546	-	-	-
Reserved for repair and maintenance	-	-	1,176,118	-	-
Unreserved, undesignated	(19,423,337)	1,404,916	200,800	-	-
Total equity and other credits	<u>(15,614,426)</u>	<u>2,317,462</u>	<u>1,376,918</u>	<u>(1,716,521)</u>	<u>9,829,654</u>
<b><u>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS</u></b>	<u>\$ 6,731,735</u>	<u>\$ 3,768,055</u>	<u>\$ 1,376,918</u>	<u>\$ 11,288,946</u>	<u>\$ 11,057,113</u>

The accompanying notes are an integral part of these financial statements.

Account Groups		Total Primary Government (Memorandum Only)
General Fixed Assets	General Long-Term Debt	
\$ -	\$ -	\$ 3,831,653
-	-	371,303
-	-	6,499,133
-	-	721,308
-	-	304,050
-	-	3,560,634
-	-	1,676,917
-	-	137,944
-	-	5,005,227
-	-	4,492,675
-	-	341,761
10,177,487	-	17,457,649
-	200,800	200,800
-	23,264,620	23,264,620
<u>\$ 10,177,487</u>	<u>\$ 23,465,420</u>	<u>\$ 67,865,674</u>

\$ -	\$ -	\$ 7,691,696
-	-	1,043,011
-	832,918	2,632,918
-	-	374,481
-	-	339,963
-	-	137,944
-	-	5,005,227
-	-	4,492,675
-	-	1,264,061
-	-	452,917
-	-	1,250,000
-	-	8,792,807
-	22,632,502	28,017,400
-	23,465,420	61,495,100
10,177,487	-	10,177,487
-	-	(1,716,521)
-	-	9,829,654
-	-	4,721,457
-	-	1,176,118
-	-	(17,817,621)
<u>10,177,487</u>	<u>-</u>	<u>6,370,574</u>
<u>\$ 10,177,487</u>	<u>\$ 23,465,420</u>	<u>\$ 67,865,674</u>



**CITY OF HIGHLAND PARK, MICHIGAN**  
**Combined Statement of Revenue, Expenditures**  
**and Changes in Fund Balances**  
**All Governmental Fund Types**  
**For the Year Ended June 30, 2005**

	<b>Governmental Fund Types</b>			<b>Totals Primary Government (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	
<b>Revenue</b>				
Property taxes	\$ 4,421,418	\$ -	\$ -	\$ 4,421,418
Income taxes	1,904,424	-	-	1,904,424
Licenses and permits	33,323	-	-	33,323
Intergovernmental	3,794,105	1,604,715	-	5,398,820
Charges for services	289	-	-	289
Fines and forfeitures	992,914	-	-	992,914
Rental income	-	-	1,070,690	1,070,690
Interest and investment earnings	24,541	24,226	67,993	116,760
Other	237,333	7,409	-	244,742
Total revenue	<u>11,408,347</u>	<u>1,636,350</u>	<u>1,138,683</u>	<u>14,183,380</u>
<b>Expenditures</b>				
Current:				
General government	2,603,848	-	9,245	2,613,093
Public safety	4,545,933	442,352	-	4,988,285
Public works	1,859,939	849,947	-	2,709,886
Health and welfare	-	135,349	-	135,349
Other departments	133,746	-	-	133,746
Unallocated	4,118,011	-	-	4,118,011
Debt service:				
Principal	190,000	-	365,000	555,000
Interest and fiscal charges	704,865	-	762,600	1,467,465
Debt issuance costs	39,705	-	-	39,705
Total expenditures	<u>14,196,047</u>	<u>1,427,648</u>	<u>1,136,845</u>	<u>16,760,540</u>
Revenue over (under) expenditures	<u>(2,787,700)</u>	<u>208,702</u>	<u>1,838</u>	<u>(2,577,160)</u>
<b>Other financing sources (uses)</b>				
Sale of property proceeds	486,319	-	-	486,319
Transfers in	467,056	8,125	-	475,181
Transfers out	(8,125)	(467,056)	-	(475,181)
Total other financing sources (uses)	<u>945,250</u>	<u>(458,931)</u>	<u>-</u>	<u>486,319</u>
Revenue and other sources over expenditures and other (uses)	<u>(1,842,450)</u>	<u>(250,229)</u>	<u>1,838</u>	<u>(2,090,841)</u>
Fund balances (deficits), beginning of year	<u>(13,771,976)</u>	<u>2,567,691</u>	<u>1,375,080</u>	<u>(9,829,205)</u>
<b>Fund balances (deficits), end of year</b>	<u><u>\$ (15,614,426)</u></u>	<u><u>\$ 2,317,462</u></u>	<u><u>\$ 1,376,918</u></u>	<u><u>\$ (11,920,046)</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**

	<b>General Fund</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance - favorable (unfavorable)</b>
<b>Revenue</b>			
Property taxes	\$ 4,800,000	\$ 4,421,418	\$ (378,582)
Income taxes	2,500,000	1,904,424	(595,576)
Licenses and permits	20,000	33,323	13,323
Intergovernmental	4,100,000	3,794,105	(305,895)
Charges for services	-	289	289
Fines and forfeitures	792,000	992,914	200,914
Interest and investment earnings	20,000	24,541	4,541
Other	3,921,000	237,333	(3,683,667)
Total revenue	16,153,000	11,408,347	(4,744,653)
<b>Expenditures</b>			
Current:			
General government	2,670,000	2,603,848	66,152
Public safety	4,205,000	4,545,933	(340,933)
Public works	1,940,000	1,859,939	80,061
Other departments	219,527	133,746	85,781
Unallocated	7,306,228	4,118,011	3,188,217
Debt service -			
Principal	190,000	190,000	-
Interest and fiscal charges	704,245	704,865	(620)
Debt issuance costs	-	39,705	(39,705)
Total expenditures	17,235,000	14,196,047	3,038,953
Revenue over (under) expenditure:	(1,082,000)	(2,787,700)	(1,705,700)
<b>Other financing sources (uses)</b>			
Emergency loan proceeds	1,000,000	-	(1,000,000)
Sale of property proceeds	100,000	486,319	386,319
Operating transfers in	-	467,056	467,056
Operating transfers out	(18,000)	(8,125)	9,875
Total other financing sources (uses)	1,082,000	945,250	(136,750)
Revenue and other sources over (under) expenditures and other (uses)	-	(1,842,450)	(1,842,450)
Fund balances (deficits), beginning of year	(13,771,976)	(13,771,976)	-
<b>Fund balances (deficits), end of year</b>	<u><u>\$ (13,771,976)</u></u>	<u><u>\$ (15,614,426)</u></u>	<u><u>\$ (1,842,450)</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF HIGHLAND PARK, MICHIGAN

## Statement of Revenue, Expenses, and

### Changes in Accumulated Deficit

#### Enterprise Fund - Water and Sewer

For the Year Ended June 30, 2005

#### Operating revenue

Charges for services	\$ 5,461,969
Penalties	217,371
Other revenue	66,208

Total operating revenue	<u>5,745,548</u>
-------------------------	------------------

#### Operating expenses

Sewage and disposal	4,069,194
Water production and distribution	1,025,449
Water administration	257,965
Repairs and maintenance	432
Bad debt expense (recovery)	(42,000)
Depreciation	238,080

Total operating expenses	<u>5,549,120</u>
--------------------------	------------------

Operating income	<u>196,428</u>
------------------	----------------

#### Non-operating revenue (expense)

Interest and investment earnings	14,571
Interest expense	(136,560)

Total non-operating expense	<u>(121,989)</u>
-----------------------------	------------------

Net income	74,439
------------	--------

Accumulated deficit, beginning of year	<u>(1,790,960)</u>
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Accumulated deficit, end of year	<u><u>\$ (1,716,521)</u></u>
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The accompanying notes are an integral part of these financial statements.

# **CITY OF HIGHLAND PARK, MICHIGAN**

## **Statement of Cash Flows**

### **Enterprise Fund - Water and Sewer**

**For the Year Ended June 30, 2005**

#### **Cash flows from operating activities**

Operating income	\$ 196,428
Adjustments to reconcile operating income (loss) to net cash provided by operations:	
Depreciation	238,080
Increase (decrease) in assets and liabilities:	
Accounts receivable	(115,640)
Deposits and prepaid items	(4,241)
Accounts payable	724,359
Accrued liabilities	(3,216)
Advances from other funds	(716,302)
Net cash provided by operating activities	<u>319,468</u>

#### **Cash flows from capital and related financing activities**

Bond principal payments	(155,000)
Interest paid	(136,560)
Net cash used by capital and related financing activities	<u>(291,560)</u>

#### **Cash flows from investing activities**

Interest and investment income	14,571
Purchase of investments	14,538
Net cash provided by investing activities	<u>29,109</u>

Net increase in cash and cash equivalents	57,017
Cash and cash equivalents, beginning of year	<u>236,512</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 293,529</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Combined Statement of Changes in Plan Net Assets**  
**Available for Retirement Benefits**  
**For the Year Ended June 30, 2005**

**Additions**

Investment income:	
Interest and dividends	\$ 209,821
Net appreciation in fair value of investments	274,862
Less investment expenses	<u>(4,486)</u>
Total investment income	<u>480,197</u>
Contributions:	
Employer	2,541,254
Employees	<u>1,617</u>
Total contributions	<u>2,542,871</u>
Total additions	<u>3,023,068</u>

**Deductions:**

Pension benefits	2,938,454
Health care benefits, net	703,528
Administrative expenses	<u>1,130</u>
Total deductions	<u>3,643,112</u>

**Net decrease** (620,044)

**Net assets held in trust for benefits**

Beginning of year	<u>10,449,698</u>
<b>End of year</b>	<u><u>\$ 9,829,654</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF HIGHLAND PARK, MICHIGAN

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### Notes To Financial Statements

June 30, 2005

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# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and financial reporting policies, taken as a whole, of the City of Highland Park, Michigan (the “City” or the “government”) do not conform to accounting principles generally accepted in the United States of America as applicable to governmental units because:

1. The City has not adopted the financial reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, nor Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, which were first effective for the City for the year ended June 30, 2003. Instead, management has elected to present the financial statements in accordance with the financial reporting model in effect prior to GASB Statement No. 34. This decision was based on monetary priorities established by the State-appointed Emergency Financial Manager (EFM), who was placed in charge of the City due to its severe financial problems. Further information regarding the City’s financial condition is provided in other notes.
2. An actuarial valuation of the Employees’ Retirement System defined benefit pension plan has not been performed since 1999; a valuation was completed for the Police and Fire Retirement System in 2003, the first time in three years. As a result, the City is unable to determine the net pension obligations for those plans or to provide the required financial statements disclosures, including the presentation of three-year trend information.
3. The general fund has recorded liabilities and related expenditures for estimated pension plan contributions, certain income tax refunds and certain self-insurance claims that should be reported in the general long-term debt account group since there are no expendable available financial resources with which to liquidate these obligations. Management has elected to present these items as general fund liabilities to underscore the severity of the City’s financial condition.
4. The financial statements do not include the Tax Increment Finance Authority, a component unit of the City.
5. The general fixed assets account group does not include all assets acquired prior to June 30, 1999, nor does the City have adequate or complete accounting records, or a physical inventory, to support the general fixed assets reported. Also, the City does not have adequate or complete accounting records to support the fixed assets reported in the enterprise fund or physical inventory records to substantiate their existence or value.
6. The City does not have adequate or complete accounting records to support the estimated liability for accrued compensated absences payable to former employees.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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### 1-A. Reporting Entity

The City is a municipal corporation that, under normal circumstances, is governed under a mayor/council form of government. However, as a result of the City's significant financial problems, the Governor appointed an Emergency Financial Manager (EFM) in June 2001 to run the City. In April 2005, a new EFM was appointed for at least an additional two year period.

These financial statements present the government and its blended component unit, but exclude its discretely presented component unit, which is required to be included by generally accepted accounting principles. Component units are entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in separate columns in the combined financial statements, if presented, to emphasize they are legally separate from the City. The City's component units have June 30 year-ends.

*Blended Component Unit.* The Building Authority is governed, under normal circumstances, by a board appointed by the City Council; however, it too is currently governed by the State-appointed emergency financial manager. The Building Authority's sole function is to oversee the financing and acquisition/construction of the City's public buildings; therefore, it is reported as if it were part of the primary government.

*Discretely Presented Component Unit.* The Tax Increment Financing Authority (TIFA) is responsible for certain revitalization projects and activities in the City. The members of the TIFA's governing board are appointed by the government. The TIFA has not been audited for the year ended June 30, 2005, or for the previous four fiscal years; accordingly, financial information for the TIFA has not been included in these financial statements.

### 1-B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

*Governmental funds* are used to account for the government's general activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are



# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlement and shared revenues are recorded at the time of receipt or earlier if the “susceptible to accrual” criteria are met. Expenditure-driven grants, if any, are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes.

The *debt service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

***Proprietary funds*** are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued prior to November 30, 1989, in accounting and reporting for its proprietary operations.

The City has one proprietary fund. The *enterprise fund* accounts for those operations that are financed and operated in a manner similar to private business or where management has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

***Fiduciary funds*** account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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The *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The pension trust funds account for the assets of the government's single-employer defined benefit pension plans.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

**Account Groups.** The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

### 1-C. Assets, Liabilities and Equity

#### Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Pension trust funds are authorized under the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair market value.

#### Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds or component units".

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources. Substantial portions of the outstanding interfund borrowings occurred prior to the appointment of the EFM, were not authorized under State law, and may result in fines and/or penalties to the City.

### **Fixed Assets**

Fixed assets used in governmental fund types of the government are recorded in the general fixed assets account group at cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary fund are recorded at cost. Property, plant and equipment donated to the proprietary fund, if any, are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed.

Property, plant and equipment are depreciated in the proprietary fund using the straight-line method over the following estimated useful lives:

<b><u>Assets</u></b>	<b><u>Years</u></b>
Buildings, plants and mains	75
Building improvements	25-50
Machinery and equipment	15

### **Compensated Absences**

It is the government's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Vacation and sick pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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### **Long-Term Obligations**

The government reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

### **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings, if any, are limited to outside third-party restrictions. Designations of fund balance, if any, represent tentative management plans that are subject to change.

Amounts reserved for advances to other funds may be subject to write off or adjustment based on management's assessment of the likelihood of payment and the impact of the write offs.

### **Memorandum Only--Total Columns**

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **2-A. Budgetary Information**

An annual budget is adopted on the modified accrual basis consistent with generally accepted accounting principles for the general fund. Budgets were not adopted for the special revenue funds. All annual appropriations lapse at fiscal year-end. Currently, the budgets are adopted by directive of the EFM.

The appropriated budget is prepared by fund, function and department. The legal level of budgetary control is the department level. Certain supplemental budgetary appropriations were made during the year, which were not considered material. The government does not utilize encumbrance accounting.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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### 2-B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2005, expenditures exceeded appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
Public safety	\$ 4,205,000	\$ 4,545,933	\$ (340,933)
Debt Service			
Interest and fiscal charges	894,245	894,865	(620)
Debt issuance costs	-	39,705	(39,705)

As noted above, the City did not adopt budgets for its special revenue funds as required under State statutes.

### 2-C. Deficit Fund Equity

At June 30, 2005, the General Fund had an unreserved deficit fund balance of \$19,423,337; the total fund balance deficit was \$15,614,426. Also at June 30, 2005, the Water and Sewer enterprise fund had a total retained earnings deficit of \$1,716,521; after considering the fund's investment in fixed assets net of related debt of \$1,895,264, its working capital deficit was \$3,611,785.

## NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### 3-A. Deposits and Investments

A reconciliation of cash, cash equivalents and investments as shown on the Combined Balance Sheet follows:

Cash and cash equivalents	\$ 3,831,653
Cash and cash equivalents – restricted	371,303
Investments	<u>6,499,133</u>
	<b><u>\$ 10,702,089</u></b>
Bank deposits	\$ 3,825,527
Investments in securities and mutual funds	6,871,882
Cash on hand	<u>4,680</u>
	<b><u>\$ 10,702,089</u></b>

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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*Custodial Credit Risk - Deposits.* For deposits, custodial credit risk is the risk, that in the event of a bank failure, the City's deposits may not be returned to the government. At year-end, \$4,319,295 of the City's total bank balance of \$4,419,295 (total book balance was \$3,825,527) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Custodial Credit Risk - Investments.* Following is a summary of the City's investments as of June 30, 2005:

U.S. treasuries	\$ 179,591
Domestic equities (pension)	4,206,521
Domestic equity mutual fund (pension)	58,724
Cash value of life insurance (pension)	579,677
Government external investment pool	147,678
Money market accounts	<u>1,699,691</u>
<b>Total</b>	<b><u>\$ 6,871,882</u></b>

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2005, none of the City's investments, excluding the government external investment pool and money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty. The City has no policy regarding custodial credit risk for investments.

*Credit Risk.* The City's investments in U.S. treasuries, money market accounts and external investment pool are not rated. The City has no policies regarding credit risk.

*Concentration of Credit Risk.* At June 30, 2005, the investment portfolio was concentrated (i.e., five percent or more of the portfolio in the securities of single issue or issuer) in the cash value of life insurance (which is policy on the life of a City resident that has a current death benefit of \$1,446,670). The City has no policies regarding the concentration of credit risk.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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*Interest Rate Risk.* As of June 30, 2005, all of the City's investments in U.S. treasuries, as well as its investments in money market accounts and external investment pool, had maturities of less than one year. The City has no policies regarding interest rate risk.

### 3-B. Fixed Assets

Following is a summary of changes in general fixed assets:

	<b>Balance at July 1, <u>2004</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b>Balance at June 30, <u>2005</u></b>
Land	\$ 582,270	\$ -	\$ -	\$ 582,270
Buildings	8,836,910	129,315	-	8,966,225
Vehicles	391,754	-	-	391,754
Equipment	<u>237,238</u>	<u>-</u>	<u>-</u>	<u>237,238</u>
	<b><u>\$10,048,172</u></b>	<b><u>\$ 129,315</u></b>	<b><u>\$ -</u></b>	<b><u>\$10,177,487</u></b>

A summary of enterprise fund fixed assets at June 30, 2005, is as follows:

Land, buildings, plants and mains	\$ 9,912,523
Machinery and equipment	<u>1,514,504</u>
	11,427,027
Less: Accumulated depreciation	<u>(4,146,865)</u>
<b>Total</b>	<b><u>\$ 7,280,162</u></b>

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

### 3-C. Short-Term Debt

On June 29, 2005, the City issued \$1,250,000 of tax anticipation notes. The notes mature on December 15, 2005 and carry interest at 6.21 percent.

### 3-D. Long-Term Debt

The following is a summary of the government's debt outstanding as of June 30, 2005:

				<u>Principal Outstanding</u>	
				Enterprise	General
	<u>Number</u>	<u>Interest</u>	<u>Maturing</u>	<u>Fund</u>	<u>Long-term</u>
	<u>of Issues</u>	<u>Rate</u>	<u>Through</u>		<u>Debt</u>
Building Authority bonds	1	7.75%	2018	\$ -	\$ 9,565,000
Pension bonds	1	2.15-6.875%	2034	-	6,000,000
Fiscal stabilization bonds	2	2.0-6.0%	2023	-	5,190,000
State emergency loan	1	variable	2022	-	1,000,000
Revenue bonds	1	2.5%	2029	5,384,898	-
Lease obligations	1	-	2009	-	229,049
Compensated absences	-	-	-	-	832,918
Lawsuits and claims	-	-	-	-	648,453
				<u>\$ 5,384,898</u>	<u>\$ 23,465,420</u>



# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

Annual debt service requirements to maturity for general long-term debt, including interest of \$15,694,392 are as follows:

<b>Year Ended June 30,</b>	<b>Building Authority Bonds</b>	<b>Pension/Fiscal Stabilization Bonds</b>	<b>State Emergency Loan</b>	<b>Lease Obligations</b>	<b>Total</b>
2006	\$ 1,128,731	\$ 893,341	\$ -	-	\$ 2,022,072
2007	1,127,538	895,424	-	67,530	2,090,492
2008	1,130,019	900,939	-	67,530	2,098,488
2009	1,127,594	895,608	-	67,530	2,090,732
2010	1,128,750	894,289	-	67,530	2,090,569
2011-15	5,647,032	4,517,260	200,000	-	10,364,292
2016-20	4,516,350	4,485,872	500,000	-	9,502,222
2021-25	-	3,164,356	300,000	-	3,464,356
2026-30	-	2,195,020	-	-	2,195,020
2031-35	-	1,760,200	-	-	1,760,200
	15,806,014	20,602,307	1,000,000	270,120	37,678,441
Interest	(6,241,014)	(9,412,307)	-	(41,071)	(15,694,392)
	<b>\$ 9,565,000</b>	<b>\$ 11,190,000</b>	<b>\$ 1,000,000</b>	<b>\$ 229,049</b>	<b>\$ 21,984,049</b>

Annual debt service requirements to maturity for enterprise fund revenue bonds, including interest of \$1,851,248, are as follows:

2006	\$ 287,685
2007	288,747
2008	289,685
2009	290,497
2010	291,185
2011-15	1,456,925
2016-20	1,451,924
2021-25	1,449,925
2026-30	1,429,573
	7,236,146
Interest	(1,851,248)
	<b>\$ 5,384,898</b>

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

Following is a summary of changes in general long-term debt for the year ended June 30, 2005:

	<u>Balance - July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance - June 30, 2005</u>
<b>General long-term debt</b>				
Building Authority bonds	\$ 9,930,000	\$ -	\$ (365,000)	\$ 9,565,000
Pension bonds	6,000,000	-	-	6,000,000
Fiscal stabilization bonds	5,380,000	-	(190,000)	5,190,000
State emergency loan	1,000,000	-	-	1,000,000
Lease obligations	277,332	-	(48,283)	229,049
Compensated absences	1,532,487	-	(699,569)	832,918
Lawsuits and claims	960,233	-	(311,780)	648,453
	<u><u>\$ 25,080,052</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,614,632)</u></u>	<u><u>\$ 23,465,420</u></u>
<b>Enterprise fund</b>				
Revenue bonds	<u><u>\$ 5,539,898</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (155,000)</u></u>	<u><u>\$ 5,384,898</u></u>

Further information regarding the lawsuits and claims are presented in Note 4-F. Payments on lawsuits and claims are reported as legal costs under general government expenditures in the general fund.

## NOTE 4 - OTHER INFORMATION

### 4-A. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Wayne County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2004 levy were assessed and equalized at \$131,625,777 (not including properties subject to Industrial Facilities Tax exemption). The government's general operating tax rate for fiscal 2004-05 was 19.9880 mills with an additional 9.600 and 2.9982 mills levied for judgments and refuse collection, respectively.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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Property taxes for the TIFA are derived from a tax increment financing agreement between the TIFA and other taxing districts. Under this arrangement, the TIFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the TIFA district. Property taxes are recognized in the fiscal year in which they are levied.

### **4-B. Risk Management**

The City is exposed to various risks of loss related property damage, torts, errors and omissions, and employee injuries, as well as for medical benefits provided to employees. Following is a summary of the City's risk management programs:

**General liability.** Prior to fiscal 2002-03, the City was self-insured for claims relating to general and auto liability, auto physical damage, and property loss claims. Beginning in fiscal 2002-03, the City purchased certain coverage through commercial carriers. No reserves have been established by the City to fund any self-insured claims. The majority of any such claims are funded through judgment levies placed on the tax roll.

**Worker's compensation.** The City is self-insured for workers' compensation claims. The liability for these claims is paid currently by the City; no reserves have been established.

**Medical claims.** The City had several commercial health insurance carriers through January 2001. Several of those carriers cancelled their health care coverage policies at that time, leaving certain employees without health care insurance. All employees were transferred to a new insurance carrier by May 2001. An unknown liability exists for claims incurred by uninsured employees from January 2001 to May 2001.

**Life and dental insurance.** The City's life and dental insurance coverage for eligible employees was cancelled in January 2001; the City is now self-insured for these benefits. An unknown liability exists for claims incurred by uninsured employees from January 2001 through June 2002. No reserves have been established by the City to fund these potential liabilities and no liabilities have been recorded as of June 30, 2005.

### **4-C. Post-employment Benefits**

The City provides post-employment life and health insurance coverage pursuant to union contracts, paying various percentages for these benefits depending on the particular contract. The City is self-insured for post-employment life insurance coverage. Certain retirees have co-pay obligations for these benefits, as provided by contract. During the year ended June 30, 2005, the net cost for post-employment benefits was \$634,371 (an increase of \$152,981 over the prior year).

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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### 4-D. Defined Contribution Pension Plans

The City has a defined contribution pension plan for all non-public safety employees. Under such plan, benefits depend solely on amounts contributed to the plan along with investment earnings thereon. As established by the City, the employer contributes an amount equal to nine percent of employees' earnings and employees contribute six percent. For the year ended June 30, 2005, the City's contribution was \$47,295.

The district court is contributing to an unrelated defined contribution pension plan that was originally established, but then discontinued by the City. Under this plan, 6.5 percent was contributed on behalf of the employer; employee contributions are voluntary. For the year ended June 30, 2005, the employer's contribution was \$6,913.

In addition to the above, the City has funds on deposit with an earlier defined contribution plan vendor, but has not been able to reconcile the account or have it moved to another vendor/trustee. Until recently, the sole trustee of this plan was a named individual who was the City's former finance director. Because of resistance from that individual, the plan assets could not be determined and employee accounts verified. The City is actively pursuing this matter to determine the plan assets are intact and verify the employee accounts.

### 4-E. Defined Benefit Pension Plans

The City has three defined benefit pension plans, which are summarized as follows:

***General Employees' Pension Plan.*** The City of Highland Park Employees' Retirement System (ERS) is a single-employer defined benefit pension plan covering non-public safety employees of the City. As of November 1986, the City closed the ERS to all employees hired after that date. Vested members of the ERS as of that date were given the option of freezing their accrued defined benefit, payable at their normal retirement date, or joining the defined contribution plan. Members electing to join the defined contribution plan were refunded their ERS contributions and allowed to roll them into that plan.

The ERS financial statements are prepared using the accrual basis of accounting. Member contributions, if any, are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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The City of Highland Park is the administrator of the plan. Administrative costs of the plan are financed through investment earnings or paid by the City. The plan is included as a pension trust fund in the City's financial statements; a stand-alone financial report of the plan has not been issued. Plan amendments are under the authority of the City of Highland Park ordinances.

The prior Pension Board made certain plan investments that violated Public Act 314. Given State statutory requirements, the EFM has undertaken a plan to achieve compliance with respect to this investment that is financially prudent, although it may take several years to resolve.

An actuarial valuation of the plan has not been performed since June 30, 1999. The City recorded an estimated contribution liability for fiscal 2004-05 of \$600,000 in the general fund, along with a matching receivable in the ERS pension trust fund. This brought the respective receivable/payable balances to \$924,802 as of June 30, 2005 after actual cash contributions during the year of \$52,504. The City has not determined or estimated its net pension obligation as required under generally accepted accounting principles.

***Police and Fire Retirement System.*** The City of Highland Park Policemen and Firemen Retirement System (PFRS) is a single-employer defined benefit pension plan covering public safety officers employed of the City. This plan was closed as of November 1985 to new hires; active members at that time were terminated and enrolled under the MERS plan, which is described below.

The PFRS financial statements are prepared using the accrual basis of accounting. Member contributions, if any, are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The City of Highland Park is the administrator of the plan. Administrative costs of the plan are financed through investment earnings or paid by the City. The plan is included as a pension trust fund in the City's financial statements; a stand-alone financial report of the plan has not been issued. Plan amendments are under the authority of the City of Highland Park ordinances.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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The City recorded an estimated contribution liability for fiscal 2004-05 of \$1,941,254 in the general fund, along with a matching receivable in the PFRS pension trust fund. This brought the respective receivable/payable balances to \$3,567,873 as of June 30, 2005 after actual cash contributions during the year of \$1,582,970. These cash payments were made possible by the issuance of fiscal stabilization bonds during the prior year. The City has not determined or estimated its net pension obligation as required under generally accepted accounting principles.

During fiscal 2003-04, certain plan retirees filed suit against the City to increase benefits pursuant to an agreement from 1996. After lengthy court proceedings, bonus payments originally ordered by the court were reversed and benefit payments were returned to the authorized base levels. Subsequently, the Highland Park Policemen and Firemen Retirement Association and one retiree, as putative class representative, filed an appeal against the City and the Board of Trustees and the City filed a cross-appeal. The Court of Appeals dismissed the appeal (and, therefore, the cross-appeal) and informed appellants that they could file a motion for leave to appeal the denial of plaintiffs' motion to intervene only. Plaintiffs disregarded the Court's instructions and filed a Motion for Reconsideration, which was granted in part, allowing the appeal to continue on behalf of the one retiree only, but not as a class action. Oral argument before a panel of the Court of Appeals occurred on August 2, 2005. A decision may take up to six months.

An actuarial valuation of the plan as of December 31, 2002 (the first such valuation in three years) was completed and issued during 2003. The actuarial assumptions included a rate of return on the investment of present and future assets of 7.5%. A more current actuarial valuation is in process, but not yet complete.

### **Schedule of Funding Progress** **(dollar amounts in thousands)**

<b>Actuarial Valuation Date</b>	<b>(a) Accrued Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(b-a) Unfunded AAL (UAAL)</b>	<b>Funded Ratio Total</b>
12/31/02	\$ 321	\$ 11,454	\$ 11,133	2.8%
12/31/99	3,452	15,845	12,393	21.8%
12/31/95	4,970	16,432	11,462	30.2%

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

**Michigan Municipal Employees Retirement System (MERS).** The City also participates in MERS, an agent multiple-employer plan administered by the MERS Retirement Board, which establishes and amends the benefit provisions of the plan participants. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; covered employees, which are limited to public safety officers, are also required to contribute. The employer contribution requirements are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the City.

The City recorded general fund expenditures of \$758,025 for fiscal 2004-05 for employer contributions to MERS. Due to the City's financial difficulties, actual payments to MERS for employer contributions for the year ended June 30, 2005 amounted to \$124,544. A liability for the amount payable to MERS is recorded in the General Fund.

The latest actuarial valuation dated December 31, 2004 uses the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004 was 30 years.

### Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(b-a) Unfunded AAL (UAAL)</b>	<b>Funded Ratio Total</b>	<b>(c) Covered Payroll</b>	<b>((b-a)/c) UAAL as a Percentage of Covered Payroll</b>
12/31/02	\$3,950,831	\$21,681,700	\$17,730,869	18%	\$1,337,170	1326%
12/31/03	8,541,551	23,090,746	14,549,195	37%	1,440,514	1010%
12/31/04	7,643,672	23,544,422	15,900,750	32%	1,296,591	1226%

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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### 4-F. Contingencies

**Lawsuits.** The City is a defendant in various lawsuits and asserted claims. A provision in the amount of \$648,453 has been recorded in the general long-term debt account group for the estimated obligation for certain of these lawsuits and asserted claims. Management and legal counsel believe the City's ultimate exposure with respect to these actions is not determinable. No provision has been made in the accompanying financial statements for additional potential liabilities, if any, that may arise from these suits and asserted claims, or any unasserted claims that relate to current or prior activities of the City.

**Income tax refunds.** The City has recorded a liability in the general fund totaling approximately \$8.8 million for income tax refund claims filed by various taxpayers. This includes over \$8.3 million of claims filed by Chrysler Corporation (or its successor) for tax years 1985 to the present. The City has had limited discussions with Chrysler regarding the potential disposition of these claims and intends to audit those claims prior to issuing any refund. Whatever the ultimate outcome, the City does not have the expendable available resources with which to pay this asserted obligation; accordingly, it should be reported in the general long-term debt account group rather than the general fund. The City has, however, paid other 2000 through 2004 refund claims with funds obtained through fiscal stabilization bonds and other general fund resources.

**Public Act 51 noncompliance.** In July 2000, the State of Michigan began withholding Public Act 51 shared revenues from the City due to noncompliance with the Act. This came about when the City failed to repay an authorized lending of Act 51 funds from the major and local street special revenue funds to the general fund for tornado damage repairs with the understanding that these loans would be repaid when federal disaster reimbursements were received. Despite its agreement to repay the monies, the prior elected administration used the federal reimbursements for other purposes and did not repay the Act 51 loan. Beginning July 2002, the State began releasing current shared revenues to the City, but not the monies withheld up to that time.

By agreement during fiscal 2004-05, the State assessed a penalty of \$1,084,176 and applied it against the Act 51 monies being withheld. This reduced the receivable and related deferred revenue recorded in the accompanying financial statements for the major and local street funds to \$948,953. The agreement allows that if Act 51 is amended to forgive this forfeiture within three years of the date of the agreement the forfeited amount will be returned to the City.

The agreement also approved \$508,004 of prior expenditures for clean-up activities, reducing the amount of the loans to be repaid by the general fund from \$1,300,956 to \$792,952. It also established a repayment plan that requires monthly payments of at least \$1,000 from non-Act 51 funds until the balance is repaid in full. As of June 30, 2005, the outstanding loan balance was \$697,992, which is reported as advances receivable in the major and local streets funds and advances payable in the general fund.



# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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***Police and Fire defined benefit pension plan.*** During fiscal 2003-04, it was discovered that six retirees receiving pension benefits from the City's Police and Fire Retirement System (the "System") also were receiving benefits from the City's MERS plan in violation of the Municipal Employees Retirement Act of 1984, restated verbatim as Section 6(2) of the MERS Plan Document, effective October 1, 1996. Section 6(2) clearly prohibits a municipal employee, who is a member of MERS, from being a member of another municipal retirement or pension plan. Based on the discovery and suspecting fraudulent acts by the six retirees and others, the EFM suspended benefit payments from the System to the retirees in question, reported the alleged fraud to the Michigan Department of Treasury, and filed suit in Wayne County Circuit Court, requesting a declaratory judgment that payments from the System should be terminated.

The defendants claim that a settlement agreement from a prior lawsuit permitted their actions, and have filed a counterclaim. The settlement agreement relied upon by the defendants violates the Michigan Public Employment Relations Act, which imposes a duty of collective bargaining on public employers and unions with respect to those matters that constitute mandatory subjects of bargaining, such as pensions. The exclusive bargaining agent for the prior lawsuit's plaintiffs, the Police Officers Labor Council, did not authorize the filing of the prior suit, the settlement agreement or the receipt of double benefits.

The defendants' initial counterclaim contained a defamation count against the EFM and Interim Finance Director in their individual and official capacities. The defendants were granted leave to file an amended counterclaim that no longer sued the EFM and Interim Finance Director in their official capacities, but only as individuals. The defendants filed a separate suit in the Court of Claims alleging defamation against the EFM and Interim Finance Director in their official capacities, and against the ELB. Summary disposition was granted on behalf of each and the Court of Claims case was dismissed.

With respect to the original Circuit Court suit, the parties have engaged in discovery and are in settlement negotiations. The scheduling order has been vacated and a settlement conference scheduled for March 2006.

In addition to and beyond the legal matters discussed above, the Police and Fire defined benefit pension plan may not have sufficient reserves to pay future pension benefits much beyond the next fiscal year. The City also does not have sufficient resources to fund current and past due required contributions.

# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Financial Statements

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***Compensated absences.*** One of the City's more contentious issues involved employee claims for earned, but unused sick and vacation time. Between January 2002 and December 2003, the City received over 100 claims from employees and former employees through the Michigan Wage and Hour Bureau seeking payment for this time. The claims were disputed on the basis that they were overstated, unsupported and, in certain instances, noncompliant with applicable labor agreements. The greatest obstacle in defending these cases has been the complete lack of recordkeeping regarding these benefits.

Currently, all but four of the claims have been resolved and they are currently pending before the Wayne County Circuit Court. All of the other claims have been resolved in the favor of the City.

Going forward, wage and hour liabilities have been largely resolved by collective bargaining agreements that limit banked time and/or specify methods for payout or forfeiture, which are manageable by the City. While employees still have banked time, the days of unsupported allegations of huge accrued amounts subject to immediate payout are likely a thing of the past.

### **4-G. Going Concern / Management's Plans**

Considering the extent of the government's fund deficits and its potential inability to satisfy future obligations when due, there is substantial doubt regarding the City's ability to continue as a going concern. The EFM continues to work with the State of Michigan, creditors, other governmental units and financial institutions to address the City's financial problems and to determine the next appropriate courses of action.

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**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

## **GENERAL FUND**

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Schedule of Expenditures - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
<b>General government</b>			
City council	\$ 65,000	\$ 64,798	\$ 202
Administration	240,000	279,152	(39,152)
District court	500,000	583,294	(83,294)
Finance	350,000	356,962	(6,962)
Audit	40,000	34,820	5,180
Labor relations	75,000	73,783	1,217
Citizen complaints	26,000	12,086	13,914
Data processing	75,000	59,101	15,899
Income tax	100,000	37,659	62,341
City assessor	60,000	69,354	(9,354)
Legal	366,000	508,236	(142,236)
Judgments	525,000	329,165	195,835
City clerk	150,000	133,543	16,457
Human resources	85,000	65,204	19,796
Treasurer	115,000	95,937	19,063
Reimbursements from major and local street funds	(102,000)	(99,246)	(2,754)
Total general government	<u>2,670,000</u>	<u>2,603,848</u>	<u>66,152</u>
<b>Public safety</b>			
Fire department	316,000	492,988	(176,988)
Public safety	3,889,000	4,052,945	(163,945)
Total public safety	<u>4,205,000</u>	<u>4,545,933</u>	<u>(340,933)</u>
<b>Public works</b>			
Public service administration	80,000	50,841	29,159
Public building maintenance	180,000	355,258	(175,258)
Public building utilities	1,100,000	915,555	184,445
Rubbish collection	580,000	538,285	41,715
Total public works	<u>1,940,000</u>	<u>1,859,939</u>	<u>80,061</u>
<b>Other departments</b>			
Inspection / Engineering	35,000	31,323	3,677
Code enforcement	33,000	8,505	24,495
Fleet maintenance	90,000	88,818	1,182
Community development	61,527	5,100	56,427
Total other departments	<u>219,527</u>	<u>133,746</u>	<u>85,781</u>

Continued...

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Schedule of Expenditures - Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
<b>Unallocated</b>			
Pension contributions	\$ 6,500,000	\$ 3,346,574	\$ 3,153,426
Workers compensation	250,000	268,984	(18,984)
Other employee benefits	550,000	471,453	78,547
Other charges	6,228	31,000	(24,772)
Total unallocated	<u>7,306,228</u>	<u>4,118,011</u>	<u>3,188,217</u>
<b>Debt service</b>			
Principal	190,000	190,000	-
Interest and fiscal charges	704,245	704,865	(620)
Debt issuance costs	-	39,705	(39,705)
	<u>894,245</u>	<u>934,570</u>	<u>(40,325)</u>
<b>Transfers out</b>	<u>18,000</u>	<u>8,125</u>	<u>9,875</u>
<b>Total expenditures and transfers out</b>	<u>\$ 17,253,000</u>	<u>\$ 14,204,172</u>	<u>\$ 3,048,828</u>

## **SPECIAL REVENUE FUNDS**

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Combining Balance Sheet**  
**Special Revenue Funds**  
**June 30, 2005**

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Local Law Enforcement Block Grant</u>	<u>Demolition</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 848,335	\$ 445,089	\$ 239,887	\$ 1,008
Due from other governments	910,740	247,231	102,481	-
Due from other funds	-	-	5,262	-
Advances to other funds	102,045	595,947	-	62,385
	<u>102,045</u>	<u>595,947</u>	<u>-</u>	<u>62,385</u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 1,861,120</u>	<u>\$ 1,288,267</u>	<u>\$ 347,630</u>	<u>\$ 63,393</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 55,958	\$ 12,118	\$ 110,847	\$ -
Due to other funds	-	-	-	-
Deferred revenue	737,373	211,580	236,783	-
	<u>737,373</u>	<u>211,580</u>	<u>236,783</u>	<u>-</u>
Total liabilities	<u>793,331</u>	<u>223,698</u>	<u>347,630</u>	<u>-</u>
<b>Fund balances</b>				
Reserved for advances	102,045	595,947	-	62,385
Unreserved, undesignated (deficit)	965,744	468,622	-	1,008
	<u>965,744</u>	<u>468,622</u>	<u>-</u>	<u>1,008</u>
Total fund balances	<u>1,067,789</u>	<u>1,064,569</u>	<u>-</u>	<u>63,393</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 1,861,120</u>	<u>\$ 1,288,267</u>	<u>\$ 347,630</u>	<u>\$ 63,393</u>



<u>Drug Forfeiture</u>	<u>Community Projects</u>	<u>Federal Account</u>	<u>Community Development</u>	<u>CDBG Program Income</u>	<u>Total</u>
\$ 18,495	\$ -	\$ -	\$ -	\$ 29,372	\$ 1,582,186
-	-	-	7,609	-	1,268,061
-	-	-	-	-	5,262
-	34,114	69,102	-	48,953	912,546
<u>\$ 18,495</u>	<u>\$ 34,114</u>	<u>\$ 69,102</u>	<u>\$ 7,609</u>	<u>\$ 78,325</u>	<u>\$ 3,768,055</u>

\$ -	\$ -	\$ -	\$ -	\$ -	\$ 178,923
-	-	-	7,609	-	7,609
-	-	-	-	78,325	1,264,061
-	-	-	7,609	78,325	1,450,593
-	34,114	69,102	-	48,953	912,546
18,495	-	-	-	(48,953)	1,404,916
18,495	34,114	69,102	-	-	2,317,462
<u>\$ 18,495</u>	<u>\$ 34,114</u>	<u>\$ 69,102</u>	<u>\$ 7,609</u>	<u>\$ 78,325</u>	<u>\$ 3,768,055</u>

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Combining Statement of Revenue, Expenditures**  
**and Changes in Fund Balances**  
**Special Revenue Funds**  
**For the Year Ended June 30, 2005**

	<b>Major Streets</b>	<b>Local Streets</b>	<b>Local Law Enforcement Block Grant</b>	<b>Demolition</b>
<b>Revenue</b>				
Intergovernmental	\$ 820,553	\$ 220,393	\$ 429,149	\$ -
Interest and investment earnings	14,630	8,177	311	21
Other	-	-	-	510
Total revenue	<u>835,183</u>	<u>228,570</u>	<u>429,460</u>	<u>531</u>
<b>Expenditures</b>				
Public safety	-	-	441,093	-
Public works	761,713	88,234	-	-
Health and welfare	-	-	-	-
Total expenditures	<u>761,713</u>	<u>88,234</u>	<u>441,093</u>	<u>-</u>
Revenue over (under) expenditures	<u>73,470</u>	<u>140,336</u>	<u>(11,633)</u>	<u>531</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	8,125	-
Transfers out	(109,603)	(357,453)	-	-
Total other sources (uses)	<u>(109,603)</u>	<u>(357,453)</u>	<u>8,125</u>	<u>-</u>
Revenue and other sources over (under) expenditures and other (uses)	(36,133)	(217,117)	(3,508)	531
Fund balances, beginning of year	<u>1,103,922</u>	<u>1,281,686</u>	<u>3,508</u>	<u>62,862</u>
<b>Fund balances, end of year</b>	<u>\$ 1,067,789</u>	<u>\$ 1,064,569</u>	<u>\$ -</u>	<u>\$ 63,393</u>

<b>Drug Forfeiture</b>	<b>Community Projects</b>	<b>Federal Account</b>	<b>Community Development Block Grant</b>	<b>CDBG Program Income</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ 118,549	\$ 16,071	\$ 1,604,715
358	-	-	-	729	24,226
6,899	-	-	-	-	7,409
7,257	-	-	118,549	16,800	1,636,350
1,259	-	-	-	-	442,352
-	-	-	-	-	849,947
-	-	-	118,549	16,800	135,349
1,259	-	-	118,549	16,800	1,427,648
5,998	-	-	-	-	208,702
-	-	-	-	-	8,125
-	-	-	-	-	(467,056)
-	-	-	-	-	(458,931)
5,998	-	-	-	-	(250,229)
12,497	34,114	69,102	-	-	2,567,691
<u>\$ 18,495</u>	<u>\$ 34,114</u>	<u>\$ 69,102</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,317,462</u>

## **FIDUCIARY FUNDS**

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Combining Balance Sheet**  
**Fiduciary Funds**  
**June 30, 2005**

	<b>Trust Funds</b>		
	<b>General Employees' Retirement System</b>	<b>Police and Fire Retirement System</b>	<b>Total Trust Funds</b>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 222,871	\$ 315,020	\$ 537,891
Investments	4,916,778	59,205	4,975,983
Due from other funds	-	-	-
Advance to other funds	-	-	-
Pension contributions receivable	924,802	3,567,873	4,492,675
Prepaid items	25,703	39,308	65,011
	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 6,090,154</u></b>	<b><u>\$ 3,981,406</u></b>	<b><u>\$ 10,071,560</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 2,300	\$ 19,950	\$ 22,250
Accrued liabilities	119,667	99,989	219,656
Due to other governments	-	-	-
Due to other funds	-	-	-
Deposits payable	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	121,967	119,939	241,906
<b>Fund balances</b>			
Reserved for employees' retirement	5,968,187	3,861,467	9,829,654
	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 6,090,154</u></b>	<b><u>\$ 3,981,406</u></b>	<b><u>\$ 10,071,560</u></b>

**Agency Funds**

<b>Current Tax</b>	<b>Fire Insurance Escrow</b>	<b>30th District Court</b>	<b>Total Agency Funds</b>	<b>Total</b>
\$ 373,446	\$ 169,148	\$ 93,881	\$ 636,475	\$ 1,174,366
-	-	-	-	4,975,983
-	-	65,308	65,308	65,308
-	283,770	-	283,770	283,770
-	-	-	-	4,492,675
-	-	-	-	65,011
<u>\$ 373,446</u>	<u>\$ 452,918</u>	<u>\$ 159,189</u>	<u>\$ 985,553</u>	<u>\$ 11,057,113</u>
\$ -	\$ -	\$ 98,390	\$ 98,390	\$ 120,640
-	-	-	-	219,656
313,681	1	60,799	374,481	374,481
59,765	-	-	59,765	59,765
-	452,917	-	452,917	452,917
373,446	452,918	159,189	985,553	1,227,459
-	-	-	-	9,829,654
<u>\$ 373,446</u>	<u>\$ 452,918</u>	<u>\$ 159,189</u>	<u>\$ 985,553</u>	<u>\$ 11,057,113</u>

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Combining Statement of Net Assets**  
**Available for Retirement Benefits**  
**June 30, 2005**

	<b>General Employees' Retirement System</b>	<b>Police and Fire Retirement System</b>	<b>Total</b>
<b>Assets</b>			
Investments, at fair value:			
Money market accounts	\$4,337,101	\$ 59,205	\$ 4,396,306
Cash surrender value of life insurance	579,677	-	579,677
Total investments	4,916,778	59,205	4,975,983
Cash and cash equivalents	222,871	315,020	537,891
Pension contributions receivable	924,802	3,567,873	4,492,675
Prepaid items	25,703	39,308	65,011
Total assets	6,090,154	3,981,406	10,071,560
<b>Liabilities</b>			
Accounts payable	2,300	19,950	22,250
Other accrued liabilities	119,667	99,989	219,656
Total liabilities	121,967	119,939	241,906
<b>Net assets held in trust for pension benefits</b>	<b>\$5,968,187</b>	<b>\$3,861,467</b>	<b>\$ 9,829,654</b>

**CITY OF HIGHLAND PARK, MICHIGAN**  
**Combining Statement of Changes in Plan Net Assets**  
**For the Year Ended June 30, 2005**

	<b>General Employees' Retirement System</b>	<b>Police and Fire Retirement System</b>	<b>Total</b>
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 206,444	\$ 3,377	\$ 209,821
Net appreciation in fair value of investments	272,915	1,947	274,862
Less investment expenses	(4,486)	-	(4,486)
	<u>474,873</u>	<u>5,324</u>	<u>480,197</u>
Total investment income			
Contributions:			
Employer	600,000	1,941,254	2,541,254
Employees	1,617	-	1,617
	<u>601,617</u>	<u>1,941,254</u>	<u>2,542,871</u>
Total contributions			
	<u>1,076,490</u>	<u>1,946,578</u>	<u>3,023,068</u>
Total additions			
<b>Deductions:</b>			
Pension benefits	1,558,151	1,380,303	2,938,454
Health care benefits, net	271,508	432,020	703,528
Administrative expenses	277	853	1,130
	<u>1,829,936</u>	<u>1,813,176</u>	<u>3,643,112</u>
Total deductions			
<b>Net increase (decrease)</b>	(753,446)	133,402	(620,044)
<b>Net assets held in trust for benefits</b>			
Beginning of year	<u>6,721,633</u>	<u>3,728,065</u>	<u>10,449,698</u>
<b>End of year</b>	<u><u>\$ 5,968,187</u></u>	<u><u>\$ 3,861,467</u></u>	<u><u>\$ 9,829,654</u></u>





# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



October 28, 2005

To the Emergency Financial Manager, Honorable  
Mayor and Members of the City Council of the  
City of Highland Park, Michigan

We have audited the financial statements of the City of Highland Park for the year ended June 30, 2006 and have issued our report thereon dated October 28, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated July 20, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered City of Highland Park's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether City of Highland Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about City of Highland Park's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on City of Highland Park's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of Highland Park's compliance with those requirements.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. Taken as a whole, these policies resulted in financial statements that, in our opinion, are not presented in accordance with generally accepted accounting principles. As reflected in Note 3.A. to the basic financial statements, the City adopted the provisions of Government Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year fiscal year ended June 30, 2005. The adoption of this new standard had no effect on the financial statements. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimates of claims, contingent liabilities, accrued compensated absences, pension contribution obligations and certain other liabilities. While certain of these estimates were supported by third party experts, such as attorneys, uncertainty related to these estimates prevented us from concluding that they were reasonable in relation to the City's financial statements taken as a whole.

**Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, except for the adjustments that would be necessary to correct certain of the departures from generally accepted accounting principles cited in our report on the financial statements if the underlying data were available, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. To our knowledge, there were no such consultations with other accountants, except to the extent that the City’s outsourced finance personnel (from one or more different CPA firms) were involved in maintaining the underlying accounting records from which the financial statements were prepared and an individual from another CPA firm has served on the City’s finance committee and advised the current Emergency Financial Manager.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the City of Highland Park, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson".

# City of Highland Park, Michigan

## Comments and Recommendations

For the Year Ended June 30, 2005

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated October 28, 2005 on the financial statements of the City of Highland Park.

### **Overall Impressions / Audit Opinion** (*Repeat from prior year*)

With the extent of the City's fiscal problems, past and present, there is a bit of *where do we start* quandary in presenting our comments and to what depth. Frankly, it makes little sense to spend time on lesser matters (of which there are plenty) when there are so many larger issues, most of which are *survivability* matters (that are outside of our purview) rather than financial reporting and internal control issues. That being said, it is important to recognize that much of the City's activities and monies have been and continue to be drawn to cleaning up the *sins of the past* and addressing emerging issues that are also rooted in the past.

Overall, the accounting records for the year ended June 30, 2005 were in very good condition. This was generally true except for those accounts dependent on prior year cumulative records, which were incomplete or nonexistent. A good example of this was with accrued compensated absences where the necessary historical payroll records no longer exist; as a result, management was put in a position to estimate a liability amount, which was unsupportable from an audit perspective. This and various other similar instances contributed to our adverse opinion on the financial statements, and will likely have a lingering impact on future financial statements (and the auditors' opinions thereon).

While it is unlikely the City will be able to obtain an unqualified opinion on its financial statements for the reasonably foreseeable future, it can improve on its current financial reporting by:

1. Adopting GASB Statement No. 34.
2. Completing annual actuarial valuations for each of the defined benefit pension plans, determining the applicable net pension obligations, properly recording those obligations in accordance with generally accepted accounting principles, and making all of the required financial statement disclosures.
3. Recording in the General Fund only those long-term obligations that will be liquidated with expendable available financial resources. We appreciate management's perception of the need to emphasize the severity of the City's financial condition, but we would encourage that it be done within the context of generally accepted accounting principles.
4. Auditing the financial statements of the Tax Increment Finance Authority and properly including them in the financial statements of the reporting entity.
5. Inventorying the City's general fixed assets (or governmental capital assets) and reasonably estimating the historical costs based on inflation-adjusted insurance replacement costs.
6. Completing a similar physical inventory of proprietary fund capital assets

# **City of Highland Park, Michigan**

## **Comments and Recommendations**

**For the Year Ended June 30, 2005**

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Accordingly, as part of the overall recovery process, we recommend that the above actions be implemented in order to present financial statements that conform to generally accepted accounting principles.

### **Fund Deficits** *(Repeat from prior year)*

The deficits in the General and Water and Sewer Enterprise funds violate State statutes. Other violations have been noted in the audit report and this letter. These matters call into question the ability of the City to continue as a going concern. It is truly an unfortunate situation for the citizens of the City of Highland Park. However, other than noting the violations for the record and stating the need to correct the deficiencies, we can only encourage persistence, patience and cooperation because the City's fiscal recovery, if it occurs at all, will undoubtedly be a lengthy and difficult process

### **Building Authority Debt Service Fund**

Of a total fund balance of \$1,376,918 in the Building Authority debt service fund, \$1,176,118 is reserved for repair and maintenance, which is inconsistent with the purpose of debt service funds. Accordingly, these monies should be accounted for in a special revenue or capital projects fund.

### **Special Revenue Fund Budgets**

The City did not adopt any budget appropriations for its special revenue funds, as required under State statutes. Accordingly, such budgets should be adopted and enforced in all future fiscal years.

### **Journal Entry Recording**

The City requires all journal entries to contain the signature of the employee that is making the entry. During testing it was noted that several journal entries did not contain the signature of the employee that posted the entry. All journal entries should contain the signature of the employee that has made the entry.

\* \* \* \* \*

**CITY OF HIGHLAND PARK,  
MICHIGAN**

**SINGLE AUDIT**

**For the Year Ended June 30, 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

# **CITY OF HIGHLAND PARK, MICHIGAN SINGLE AUDIT**

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**Year Ended June 30, 2005**

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**CITY OF HIGHLAND PARK, MICHIGAN**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2005**

<u>Federal Agency/Pass-through Agency Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Project/Grant Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through Wayne County, Michigan:			
Community Development Block Grant	14.218	n/a	\$ 83,999
Community Development Block Grant	14.218	n/a	34,550
Program Income - Rehabilitation Loans	14.218	n/a	16,800
			<u>135,349</u>
<b>U.S. Department of Justice</b>			
Direct Programs:			
Local Law Enforcement Block Grants Program:			
2001-LB-BX-3979	16.592	n/a	45,990
2002-LB-BX-3049	16.592	n/a	56,022
2003-LB-BX-2845	16.592	n/a	2,971
2003-LB-BX-1461	16.592	n/a	30
			<u>105,013</u>
Weed and Seed Program -			
2001-WS-QW-0195	16.595	2001-WS-QW-0195	102,052
COPS in Schools Grant -			
1999-SH-WX-0481	16.710	1999-SH-WX-0481	210,394
Federal Equitable Sharing Program	16.unk	n/a	1,259
Passed through the Michigan Department of Human Services -			
Juvenile Accountability Block Grant	16.523	JAIBG-04-82014	<u>18,051</u>
Total U.S. Department of Justice			<u>436,769</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 572,118</u></u>



# CITY OF HIGHLAND PARK, MICHIGAN

## Notes to Schedule of Expenditures of Federal Awards

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### 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Highland Park, Michigan and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

### 2. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City of Highland Park provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Weed and Seed Program	16.595	\$ 102,052
COPS in Schools Grant	16.710	210,394

\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

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INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

March 22, 2006

To the Emergency Financial Manager, Honorable  
Mayor and Members of the City Council  
City of Highland Park, Michigan

We have audited the financial statements of the *City of Highland Park, Michigan* (the "City") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. In our report on the financial statements, we expressed an adverse opinion on the financial statements because of the failure to: (1) adopt new financial reporting requirements; (2) provide certain required disclosures and supplemental information; (3) properly classify certain transactions; and (4) be derived from complete and accurate accounting records. Our report on the financial statements also included an explanatory paragraph describing conditions, discussed in Note 4-G to the financial statements, that raised substantial doubt about the City's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financing reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2005-1, as referenced above, to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2005-1.

This report is intended solely for the information and use of the Emergency Financial Manager, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

March 22, 2006

To the Emergency Financial Manager, Honorable  
Mayor and Members of the City Council  
City of Highland Park, Michigan

**Compliance**

We have audited the compliance of the *City of Highland Park, Michigan* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 2005-2 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements to audit federal programs in prior years, to monitor subrecipients and ensure their compliance with audit requirements, and to respond to federal agency monitoring reports/findings that are applicable to each of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to each of its major programs

In our opinion, except for the noncompliance described in the preceding paragraph, the *City of Highland Park* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### **Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-2.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2005-2, as referenced above, to be a material weakness.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the City as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements of the City. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. In our report on the financial statements, we expressed an adverse opinion on the financial statements because of the failure to: (1) adopt new financial reporting requirements; (2) provide certain required disclosures and supplemental information; (3) properly classify certain transactions; and (4) be derived from complete and accurate accounting records. Our report on the financial statements also included an explanatory paragraph describing conditions, discussed in Note 4-G to the financial statements, that raised substantial doubt about the City's ability to continue as a going concern. For these reasons, we are unable to express an opinion on the accompanying schedule of expenditures of federal awards.

This report is intended solely for the information and use of the Emergency Financial Manager, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

# CITY OF HIGHLAND PARK, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued:

Adverse

Internal control over financial reporting:

Material weakness(es) identified?

X yes \_\_\_\_\_ no

Reportable condition(s) identified  
not considered to be material weaknesses?

\_\_\_\_\_ yes X none reported

Noncompliance material to financial statements  
noted?

X yes \_\_\_\_\_ no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

X yes \_\_\_\_\_ no

Reportable condition(s) identified  
not considered to be material weaknesses?

\_\_\_\_\_ yes X none reported

Type of auditors' report issued on compliance  
for major programs:

Qualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)?

X yes \_\_\_\_\_ no

# CITY OF HIGHLAND PARK, MICHIGAN

## Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2005

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### SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
16.710	COPS in Schools Grant

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?        yes   X   no

### SECTION II – FINANCIAL STATEMENT FINDINGS

#### *Reportable Conditions*

#### 2005-1 Adverse Opinion Factors (*Repeat Finding*)

As described in detail in Note 1 to the financial statements, an adverse opinion was expressed on the City's financial statements due to a number of factors including the failure to adopt required reporting standards, inaccurate or missing pension plan records, inadequate pension plan disclosures in the financial statements, inappropriate fund liabilities, and inadequate or incomplete accounting records to support fixed asset and accrued compensated absences balances. In addition, in violation of State statutes, the City has significant deficits in its general and water and sewer funds. The general fund deficit alone is almost 1.4 times the City's current annual general fund revenues.

While the conditions cited above generally originated prior to the appointment of either the current or former Emergency Financial Manager, the persistence and propensity for significant new issues to keep arising from the events of the past make it seemingly impossible, at least at this time, for the City to present financial statements, or to establish internal controls over financial reporting, that will demonstrate compliance with State statutes and generally accepted accounting principles.



# **CITY OF HIGHLAND PARK, MICHIGAN**

## **Schedule of Findings and Questioned Costs (Concluded)**

**For the Year Ended June 30, 2005**

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### **SECTION II – FINANCIAL STATEMENT FINDINGS (Concluded)**

Given the nature and extent of the its problems, we have no meaningful recommendations for the City other than to encourage its leaders and citizens to work cooperatively in chipping away at the issues in hopes of eventual resolution.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Department of Justice – Weed and Seed Program and COPS in Schools Grants***

##### **2005-2 Grants Management (*Repeat Finding*)**

Due in large measure to the problems cited above and the difficulties of operating an entity in extreme financial crisis, the City pretty much handed off the major federal programs to other community entities to administer and operate without securing appropriate subgrant agreements and without exercising the oversight responsibilities required of a pass-through entity, including the verification of subrecipient compliance with program and audit requirements. Accordingly, for all current and future federal programs we recommend that the City properly discharge its administrative duties and responsibilities as a grant recipient, whether the grants are operated internally or subcontracted.

### **SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS**

See findings 2005-1 and 2005-2 above; these are repeats of findings 2004-1 and 2004-2 from the prior year.

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